APPENDIX A

Carl M. PEARSON et al., Plaintiffs,

v.

Harry A. Shadell and Arnold Betchen, Plaintiffs-Appellants

v.

ECOLOGICAL SCIENCE CORP. et al., Defendants-Appellees

No. 74-2175.

United States Court of Appeals, Fifth Circuit.

Oct. 31, 1975.

Two of 99 original and intervening plaintiffs in 16 consolidated securities fraud actions sought to overturn orders enforcing a stipulation of settlement entered by the United States District Court for the Southern District of Florida, at Miami, Peter T. Fay, J., and to have the settlement declared void. The Court of Appeals, Simpson, Circuit Judge, held that (1) the district court's findings of fact in support of its order enforcing the terms of the settlement were not clearly erroneous, (2) where a court has ruled that an action cannot properly be maintained as a class action, the notice requirements of the federal class action rule do not apply, at least where the dismissal and settlement of the action do not directly affect adversely the rights of individuals not before the court, (3) the named original plaintiffs and intervenors breached no fiduciary duty to absent members of the alleged class in consummating the settlement agreement in exchange for the voluntary dismissal of a petition for writ of certiorari contesting the denial of class action certification, and (4) since individuals who were not parties to the litigation were not directly affected by the dismissal of the certiorari petition, appellants' reliance on the Supreme Court's "Young" decision was misplaced.

Affirmed.

1. Compromise and Settlement ⇐2

Settlement agreements are highly favored in the law and will be upheld whenever possible because they are a means of amicably resolving doubts and preventing lawsuits.

2. Courts ⇐406.3(24)

In considering the validity of district court's findings of fact contained in order enforcing the terms of stipulation of settlement, Court of Appeals was governed by the "clearly erroneous" standard; the applicable test was not simply whether the Court would have found otherwise but whether the district court could permissibly find as it did. Fed. Rules Civ.Proc. rule 52(a), 28 U.S.C.A.

3. Courts ⇐406.3(24)

District court's findings of fact in support of its order enforcing the terms of stipulation of settlement were not "clearly erroneous." Fed.Rules Civ.Proc. rule 52(a), 28 U.S.C.A.

4. Compromise and Settlement ⇐21

Since material facts concerning the existence of an agreement to settle were in dispute, the district court followed approved procedure in holding a plenary hearing to determine the enforceability of the settlement agreement, rather than summarily enforcing it.

5. Federal Civil Procedure ⇐1698

The special prophylactic function of subdivision of the federal class action rule pertaining to court approval of dismissal and compromise is to assure that any person whose rights would be affected by a dismissal or compromise has the opportunity to contest the proposed action. Fed.Rules Civ.Proc. rule 23(e), 28 U.S.C.A.

6. Federal Civil Procedure ⇐1698

Where a court has ruled, under the federal class action rule, that an action cannot properly be maintained as a class action, the notice requirement of the rule's dismissal or compromise provision do not apply, at least where the dismissal and settlement of the action do not directly affect adversely the rights of individuals not before the court. Fed. Rules Civ.Proc. rule 23(c)(1), (e), 28 U.S. C.A.

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7. Federal Civil Procedure ⇐1699

Named original plaintiffs and intervenors breached no fiduciary duty to absent members of alleged class in consummating settlement agreement in exchange for the voluntary dismissal of petition for writ of certiorari contesting the denial of class action certification. Fed.Rules Civ.Proc. rule 23, 28 U.S.C.A.

8. Limitation of Actions ⇐126

At least in certain situations, the commencement of a class action tolls the applicable statute of limitations as to all members of the class, until the determination of the propriety of maintaining the action as a class action is made by the trial court; furthermore, in the instant case, the motion for class action certification was denied on March 13, 1973, and the stipulation of settlement was entered into on February 22, 1974, meaning that any party who failed to seek intervention between those dates could blame no one but himself if his action was now barred. Fed.Rules Civ. Proc. rule 23, 28 U.S.C.A.

9. Federal Civil Procedure ⇐161

Where individuals who were not parties to the litigation were not directly affected by the dismissal, pursuant to settlement agreement, of petition for certiorari challenging the denial of class action certification, any reliance on the Supreme Court's "Young" decision was misplaced.

10. Appeal and Error ⇐172(1)
Courts ⇐522

Appellants' failure to raise the dismissal of derivative claim as a ground for invalidating settlement agreement in the district court precluded them from raising it in the Court of Appeals; furthermore, an action had been commenced in the Southern District of New York containing a derivative claim identical to the one alleged in the consolidated complaint in the instant action, and that new action would thus protect the rights, if any, of the corporation. Fed.Rules Civ. Proc. rule 23.1, 28 U.S.C.A.

Michael P. Fuchs, Stuart D. Wechsler, New York City, for Skydell.

Dermot G. Foley, New York City, for Dutchen.

James H. Schropp, David Ferber, Richard E. Nathan, Securities and Exchange Commission, Washington, D. C., for amicus curiae.

Stuart A. Summit, Gerard A. Dupuis, New York City, Miller Walton, Roy B. Gonas, Gaston, Snow, Motley & Holt, Boston, Mass., Metzenbaum, Gaines, Finley & Stern, Cleveland, Ohio, Koeppel, Stark, Marks & Newmark, Miami, Fla., for Ecological.

Sidney M. Aronovitz, Paige & Catlin, H. James Catlin, Jr., Miami, Fla., for Auerbach and others.

Thomas H. Seymour, Miami, Fla., for Co-Lead Counsel.

James W. Beasley, Jr., Miami, Fla., for Fabian, Grosh & Vollbrecht.

Reginald L. Williams, Miami, Fla., Michael A. Cooper, Richard G. Lyon, New York City, for Haskins & Sells.

Aubrey V. Kendall, Miami, Fla., for Essex Fund, Inc. & Salem Fund Inc.

Russo, Dubin & Goldberg, Michael H. Goldberg, New York City, for Cantor & Carter.

Appeals from the United States District Court for the Southern District of Florida.

Before BELL, DYER and SIMPSON, Circuit Judges.

SIMPSON, Circuit Judge:

Appellants Harry Skydell and Arnold Dutchen, two of ninety-nine original and intervening plaintiffs in sixteen consolidated actions, seek to overturn two orders enforcing a stipulation of settlement entered by the district court, and to have the settlement declared void. We affirm, finding no error in the actions or orders of the district court.

The basis of this litigation consists of sixteen actions commenced in 1971 and 1972, against Ecological Science Corporation (Ecological), and certain of its offi-

cers, directors, subsidiaries, and its accountants Haskins & Sells. Five of these actions were commenced in the Southern District of Florida, and eleven were transferred to that district pursuant to Title 28, U.S.C., Sec. 1404(a). Fifteen of the actions alleged individual and class action claims against some or all of the defendants. On March 20, 1972, the district court consolidated the sixteen actions, appointed the firms of Kelly, Black, Black & Kenny and Koeppel, Stark, Marks & Newmark as co-lead counsel (hereinafter co-lead counsel),[1] and directed that a consolidated amended complaint be filed by co-lead counsel setting forth all claims possessed by all plaintiffs in "whatever capacity". In delineating the authority of co-lead counsel to act on behalf of all plaintiffs the March 20, 1972, order provided:

> "All other pleadings, including but not limited to stipulations and the making of all opposition to any motion, shall likewise be initiated and conducted by co-lead counsel on behalf of all plaintiffs subject to consultation by them with additional counsel representing specific plaintiffs."

The March 20 consolidation order also enjoined all present and former stockholders of Ecological from instituting or prosecuting any action based on any claims alleged in the consolidated complaint except through intervention in the consolidated case.

The consolidated complaint pleaded eight separate claims on behalf of thirty-two named plaintiffs. Five of the eight claims were also asserted on behalf of the class of individuals who "purchased said [Ecological] stock during the period of November 27, 1967, to approximately May 26, 1971"; two of the other counts were asserted on behalf of differently described classes of Ecological stockholders.[2]

The district court on March 13, 1973, after oral argument and the filing of briefs by the parties, entered an order denying the plaintiffs' motion that their cause be certified as a class action. The plaintiffs appealed that order to this court, and on May 29, 1973, we granted the defendants' motion to dismiss the appeal for lack of jurisdiction. Plaintiffs then filed a petition for a writ of certiorari in the Supreme Court requesting that Court to review the jurisdiction of an appellate court to review an interlocutory denial of class action certification. The petition for certiorari did not and could not raise the merits of the district court's order denying class action status.

During the course of this interlocutory appeal extensive discovery was conducted in the district court, and that court granted motions to intervene in the consolidated action filed on behalf of sixty-seven individuals. The district court on November 16, 1973, set March 18, 1974 as the date for trial of the consolidated action. In setting the trial date the dis-

1. On February 17, 1972, the district court notified all counsel of record of a proposed order consolidating the sixteen actions, and appointing the Kelly firm and another Miami firm as co-lead counsel. Appellants, Skydell and Dutchen, through their New York counsel filed with the district court a motion supported by affidavits claiming that their interests would not be adequately protected unless their Miami counsel, the Koeppel firm, were appointed one of co-lead counsel. In its March 20, 1972, order the district court honored this request by appointing the Koeppel firm with the Kelly firm as co-lead counsel.

2. The first and primary count of the complaint alleged that the defendants had from November 1967 to May 1971, engaged in an unlawful conspiracy to manipulate and artificially inflate the price of the common stock of Ecological in violation of Section 10(b) of the Securities Exchange Act of 1934 and S.E.C. Rule 10b-5. Counts 2 through 5 pleaded claims under §§ 15 and 17(a) of the Securities Act of 1933; §§ 13(a), 14, and 20 of the Securities Exchange Act of 1934; and S.E.C. Rules 13a-1, 13a-11, and 13a-13. Count 6 asserted a common law negligence claim against Haskins & Sells, Ecological's auditors; Count 7 alleged a cause of action based on common law fraud against Ecological and two of its directors; and Count 8 alleged a derivative claim on behalf of Ecological against two of the corporation's directors and officers and two foreign affiliates of Ecological.

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trict court made it clear to all parties that it intended to proceed with the trial on the scheduled trial date despite the pending petition for a writ of certiorari. At that point, and continuing for two months afterwards, co-lead counsel on behalf of the named plaintiffs and intervenors entered negotiations with defense counsel with the purpose of settling the litigation without the necessity of trial. These negotiations bore fruit on January 31, 1974, in the form of a stipulation of settlement which encompassed the claims of and was subject to ratification by the ninety-nine original and intervening plaintiffs. The stipulation of settlement dealt only with the claims of the ninety-nine named plaintiffs and did not purport to affect in any way the claims of other Ecological stockholders not involved in the litigation. Co-lead counsel wrote to each named plaintiff on February 9, 1974, setting out what in their opinion were the essential terms of the settlement, recommending approval of the settlement, and requesting that approval of the settlement be signified by each named plaintiff by signing and returning to co-lead counsel a copy of the letter.[3] On February 11, 1974, appellants, Skydell and Dutchen, both signified their ratification of the stipulation of settlement by signing and returning to co-lead counsel the copies of the letter sent to them. On February 22, 1974, co-lead counsel advised defense counsel in writing that they had been unable to contact three plaintiffs, whom they had represented both individually and as co-lead counsel throughout the litigation, and therefore had not obtained their consents. However, co-lead counsel suggested that they be permitted to accept the stipulation of settlement on behalf of these three individuals, since they knew of no reason why the three plaintiffs would deny them the authority to execute a definitive settlement agreement on their behalf.[4] Defense counsel agreed to this procedure with the result that on February 22, 1974, the approval of the stipulation of settlement had been obtained from all the original plaintiffs and intervenors.

However, two attempts were made to prevent the consummation of the settlement and the dismissal of the litigation. First, on February 22, 1974, Thomas G. Jenny, a member of the alleged class of purchasers of Ecological stock, filed a motion to intervene in the litigation with the district court, for the stated purpose of preventing the consummation of the stipulation of settlement. Simultaneous with the filing of the intervention motion with the district court, Jenny petitioned the Supreme Court for permission to intervene in the pending petition for a writ of certiorari, which was stipulated to be voluntarily dismissed by the named plaintiffs pursuant to the terms of the settlement. In support of allowing his intervention in both actions Jenny argued that the consummation of the proposed settlement, with the resultant dismissal of both the action in the district court and the petition for certiorari in the Supreme Court, would breach fiduciary duties owed by the named plaintiffs to other class members and, in addition, would constitute a sale of the appeal rights of class members under *Young* v. *Higbee*, 1945, 324 U.S. 204, 65 S.Ct. 594, 89 L.Ed. 890. On March 1, 1974, the district court denied Jenny's motion to intervene on the grounds that it was not timely made and that "the stipulation of settlement in no way affects his rights". This court subsequently denied Jenny's request for an interlocutory injunction to stay the consummation of the settlement below. On April 10, 1974, Jenny filed with the Supreme Court a petition seeking an injunction to stay the proceedings in the district court and to prevent the

3. These letters were mailed special delivery to the individual plaintiffs and intervenors, and copies were sent by air mail to individual counsel.

4. Appellees' brief filed with this court states that the consent of the three plaintiffs was obtained by co-lead counsel subsequent to the court order enforcing the terms of the stipulation of settlement.

parties from consummating the settlement. The Supreme Court, on April 15, 1974, denied both Jenny's application for an injunction and his motion to intervene in the petition for a writ of certiorari.

The second attempt to prevent the consummation of the settlement, and the basis of this appeal, relates to the attempted revocation by Skydell and Dutchen of their ratification of the stipulation of settlement. On February 26, 1974, and February 28, 1974, Skydell and Dutchen, respectively, sent telegrams to co-lead counsel and to Chief Judge Fulton of the Southern District of Florida, in the absence of Judge Fay who handled the case below throughout, which purported to revoke their acceptances of the settlement proposal "[i]n light of advice from my attorney . . . regarding abandonment of class and my possible duties as class representative . . . ." Because of these telegrams Judge Fay held a hearing on March 14, 1974, to "clarify the status of the case", and to determine the objections of Skydell and Dutchen to the settlement agreement. At that hearing it was agreed that an enforcement hearing should be held to determine whether the stipulation of settlement was enforceable. The enforcement hearing was held on March 27, 1974. At that time Skydell and Dutchen, through counsel, argued that their ratification of the stipulation of settlement was void or voidable due to the following actions and omissions on the part of co-lead counsel: (i) that the letter from co-lead counsel purporting to state the material terms of the settlement omitted and misrepresented certain material terms; (ii) that Skydell and Dutchen were misled into believing that their individual counsel were aware of and had approved the terms of the stipulation; and (iii) that co-lead counsel failed to obtain the consent of all named plaintiffs, and did not have the authority to accept the stipulation on behalf of those plaintiffs whose consent had not been secured. Skydell and Dutchen in addition argued that the named plaintiffs would breach fiduciary duties owed to members of the originally alleged classes both by dismissing the action in the district court and the petition for certiorari in the Supreme Court, and that such actions amounted to a sale of class rights, citing and relying upon *Young v. Higbee*, supra.

After hearing oral argument and receiving briefs from the parties on these points, the district court rejected these arguments, and on March 28, 1974, entered an order enforcing the terms of the stipulation of settlement. In support of the March 28 order the district court made the following findings of fact:

"1. The material terms of the stipulation of settlement were properly, fairly, and adequately communicated by co-lead counsel for plaintiffs to all plaintiffs, including plaintiffs Dutchen and Skydell, by letter dated February 9, 1974."

"2. All plaintiffs except [the three whom co-lead counsel had been unable to reach] had knowledgeably accepted and ratified the terms of the stipulation of settlement by February 22, 1974."

3. That co-lead counsel "were authorized to accept the terms of the stipulation of settlement on behalf of" the three unavailable plaintiffs, whom co-lead counsel had represented "throughout the litigation."

"4. The stipulation of settlement was binding on all plaintiffs on February 22, 1974."

On April 4, 1974, the district court ordered the dismissal of the litigation with prejudice to the named plaintiffs and intervenors, except as provided in the Settlement Agreement. Subsequently, the pending petition for a writ of certiorari was voluntarily dismissed by the parties pursuant to Rule 60(1) of the Supreme Court Rules.

[1] Appellants, Skydell and Dutchen, seek to have us declare the settlement agreement unenforceable and/or void. In support of this request they first set

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forth the same objections to the settlement agreement they presented at the March 27, 1974, enforcement hearing in the district court, *supra*. Initially we observe that the appellants make no argument that the settlement agreement is unfair to them or to any of the other original named plaintiffs or intervenors. See *Cia Venezolana De Navegacion v. Harris*, 5 Cir. 1967, 374 F.2d 33. Further, we are guided throughout our decision by the principle that "[s]ettlement agreements are highly favored in the law and will be upheld whenever possible because they are a means of amicably resolving doubts and preventing lawsuits". *D. H. Overmyer Co. v. Loflin*, 5 Cir. 1971, 440 F.2d 1213, 1215; *W. J. Perryman & Co. v. Penn Mutual Fire Insurance Co.*, 5 Cir. 1963, 324 F.2d 791, 793.

[2-4] In considering the validity of the district court's findings of fact contained in the March 28, 1974 order, we are governed by the "clearly erroneous" standard. F.R.Civ.P. 52(a); *McAllister v. United States*, 1954, 348 U.S. 19, 75 S.Ct. 6, 99 L.Ed. 20. The test we apply to the findings below "is not simply whether the reviewing court would have found otherwise but whether the trial court could permissibly find as it did". *Movible Offshore, Inc. v. The M/V Wilken A. Falgout*, 5 Cir. 1973, 471 F.2d 268, 271; *Guardian Life Insurance Co. of America v. Eagle*, 5 Cir. 1973, 484 F.2d 382, 384. The record of the March 27 enforcement hearing, of the March 14 status conference, and the documents and affidavits submitted to the district court by the parties prior to and at those hearings contain ample evidence to support the lower court's findings. After carefully reviewing all of the evidence before the district court we are not convinced that "on the whole record that the finding[s] [of the district court do] not reflect the truth and right of the case". *Wright, Federal Courts* § 96, at 432 (1970); *Glapion v. MS Journalist*, 5 Cir. 1973, 487 F.2d 1252, 1254. This is not a case requiring reversal under the "clearly erroneous" standard.[5]

Appellants contend however that the trial court erred in enforcing the stipulation of settlement because the settlement was void as a matter of law as constituting a sale of class rights by the named plaintiffs. More particularly, the appellants claim that the voluntary dismissal of the petition for a writ of certiorari, as required by the terms of the settlement, was a breach of a fiduciary duty owed by the named plaintiffs and intervenors to nonparty class members. In support of the appellants, the Securities Commission filed an *amicus curiae* brief in which it argues that the district court erred by failing to require that notice under Rule 23(e), F.R.Civ.P., be given to members of the asserted class of the proposed settlement.[6] The arguments of the appellants and the S.E.C. ignore the difference between a class action and a non-class action. They place undeserved emphasis upon mere allegations of class action status by individual plaintiffs, rather than upon a judicial determination that a cause of action does not meet the requirements of subdivisions (a) and (b) of Rule 23 and, therefore, may not be maintained as a class action.

[5, 6] The special prophylactic function that subdivision (e) of Rule 23 was designed for is to "assure that any person whose rights would be affected by a

5. Additionally, since material facts concerning the existence of an agreement to settle were in dispute the district court followed procedure approved by this court by holding a plenary hearing to determine the enforceability of the settlement rather than summarily enforcing it. *Massachusetts Casualty Insurance Co. v. Forman*, 5 Cir. 1972, 469 F.2d 259, 260. Accord *Autera v. Robinson*, 1969, 136 U.S.App.D.C. 216, 419 F.2d 1197.

6. Subdivision (e) of Rule 23 provides:

"(e) Dismissal or Compromise. A class action shall not be dismissed or compromised without the approval of the court, and notice of the proposed dismissal or compromise shall be given to all members of the class in such manner as the court directs."

dismissal or compromise has the opportunity to contest the proposed action". 7A Wright & Miller, Federal Practice & Procedure § 1797, at 234 (1972); Advisory Committee's Notes to Proposed Rules of Civil Procedure, Rule 23, 1966, 39 F.R.D. 69, 104. In order to protect the rights of absent class members during "the interim between filing and the 23(c)(1) determination by the court", other courts have required that for purposes of the notice provisions of subdivision (e) that the action be presumed proper for class action determination. *Philadelphia Electric Co. v. Anaconda American Brass*, E.D.Pa.1967, 42 F.R.D. 324, 326. See, e. g., *Katz v. Carte Blanche Corporation*, 3 Cir. 1974, 496 F.2d 747; *Kahan v. Rosenthal*, 3 Cir. 1970, 424 F.2d 161, cert. denied, 398 U.S. 950, 90 S.Ct. 1870, 26 L.Ed.2d 290; *Rothman v. Gould*, S.D. N.Y.1971, 52 F.R.D. 494; *Yaffee v. Detroit Steel Corporation*, N.D.Ill.1970, 50 F.R.D. 481. Appellants and the S.E.C. ask this court to extend the judicial gloss on subdivision (e) of Rule 23 to encompass the situation where as here the trial court has determined prior to the execution of a settlement agreement that the action may not be maintained as a class action under Rule 23. This we decline to do. As stated by the Advisory Committee's Notes to Rule 23, "a *negative determination* [of class action status] means that *the action should be stripped of its character as a class action*". Advisory Committee Notes, supra, 39 F.R.D. at 104 (emphasis added). Hence, where a court has ruled under Rule 23(c)(1) that an action cannot properly be maintained as a class action the notice requirements of Rule 23(e) do not apply, at least where the dismissal and settlement of the action do not directly affect adversely the rights of individuals not before the court. *Beaver Associates v. Cannon*, S.D.N.Y.1973, 59 F.R.D. 508, 512; *Polakoff v. Delaware Steeplechase and Race Association*, D.Del.1966, 261 F.Supp. 915, 916; *Berger v. Purolator Products, Inc.*, S.D.N.Y.1966, 41 F.R.D. 542, 545.

[7] Similarly lacking in merit is appellants' contention that the named original plaintiffs and intervenors breached a fiduciary duty to absent members of an alleged class in consummating the settlement agreement in exchange for the voluntary dismissal of the petition for writ of certiorari. The rule which appellants ask this court to adopt would require that in every action in which class action certification is denied by a district court, the named plaintiffs would be precluded from executing a settlement of their individual claims, and would be required to litigate through appellate review of the interlocutory order denying class action certification after a final judgment in the trial court.[7] The district court order dismissing the litigation, pursuant to the terms of the stipulation, did not prejudice the rights of individuals who were not parties to the litigation at the time of the dismissal. See *Eisen v. Carlisle & Jacquelin*, 1974, 417 U.S. 156, 94 S.Ct. 2140, 40 L.Ed.2d 732; *Greenfield v. Villager Industries, Inc.*, 3 Cir. 1973, 483 F.2d 824, 832. Nothing prevents other purchasers of Ecological stock from filing suit against the defendants in this litigation to recover their individual losses. In fact, three suits have been commenced, subsequent to the dismissal of this suit, alleging claims almost identical in substance to those that formed the basis of this litigation.[8]

7. In the circumstances here present, we cannot discern how the holding which appellants seek will have any effect on the alleged fiduciary duty which—under appellants' theory—has already been breached. First, the appellants fail to show any damage to them from the voluntary dismissal of the petition for certiorari. No member of the class to whom the alleged fiduciary duty was owed has joined the appellants in prosecuting this appeal, nor has any member of the alleged class commenced an action against the appellants or any other of the named plaintiffs for the alleged breach. Secondly, a finding by this court that the settlement agreement is void will not cure the alleged breach of duty of which the appellants complain, since, obviously, this court does not possess the power to order the reinstatement in the Supreme Court of the petition for a writ of certiorari.

8. *Robert C. Troup v. Peter Adolph, et al.*, S.D. N.Y., 75 Civ. 380; *Eli Frankel v. Peter Adolph,*

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[8] The appellants have not only failed to show any prejudice to nonparty members of the alleged class by the settlement and dismissal of this action, they have also been unable to show that any of those individuals were relying on the petition for a writ of certiorari to exonerate their rights.[9] We fail to understand how individuals could have relied on the possibility that some day a court might determine that the suit was proper for class action determination because a petition for a writ of certiorari seeking review of the jurisdiction of this court to review an interlocutory order denying class action certification might have been granted.[10] Further, since no Rule 23(c)(3) notice of the maintenance of this litigation was ever given or required to be given to nonparty members of the originally alleged class, reliance by those individuals on this action to recover their losses would be particularly misplaced. Appellants point out that the claims of nonparties may now be barred by the statute of limitations. But recent decisions by the Supreme Court indicate that, at least in certain situations, the commencement of a class action tolls the applicable statute of limitations as to all members of the class, until a determination of the propriety of maintaining the action as a class action is made by the trial court. *Eisen v. Carlisle & Jacquelin*, 1974, 417 U.S. 156, 177, n. 13, 94 S.Ct. 2140, 2152, 40 L.Ed.2d 732, 748; *American Pipe & Construction Co. v. Utah*, 1974, 414 U.S. 538, 94 S.Ct. 756, 38 L.Ed.2d 713. We note further that the motion for class action certification was denied by the district court on March 13, 1973, and the stipulation of settlement was entered into on February 22, 1974; thus, any party who failed to seek intervention in the consolidated action between those two dates can blame no one but himself if his action is now barred:

> "If such a bar does exist, it is the result of their lethargy and indifference and not the breach of any duty, moral or otherwise, on the part of the plaintiffs or the Court to awaken them from their slumber."

Polakoff v. Delaware Steeplechase and Race Association, D.Del.1966, 264 F.Supp. 915, 916.

[9] Since on the record before us, we find that individuals who were not parties to the litigation were not directly affected by the dismissal of the petition for certiorari, the appellants' reliance on *Young v. Higbee Co.*, 1945, 324 U.S. 204, 65 S.Ct. 594, 89 L.Ed. 890, is misplaced. Essential to the Supreme Court's opinion in *Young* was the finding that the abandonment of the appeal in that case by named plaintiffs had a direct adverse effect on the "inseparable" interests of others not parties to the litigation, who were bound by the judgment of the lower court with no further opportunity to appeal. *Young*, supra, at 210–14, 65 S.Ct. at 598–99, 89 L.Ed. at 896–98. The holding in *Young* is inapposite here where the dismissal of the action as previously noted has no res judicata effect on the rights of individuals not parties to the litigation.[11]

et al., E.D.N.Y., 75 Civ. 159; *Thomas G. Jenny v. Haskins & Sells, et al.*, S.D.N.Y., 75 Civ. 1423. The latter two complaints contain class action allegations.

9. It appears that the stockholders of Ecological were apprised of the district court order denying the motion for class action certification in a proxy statement mailed to them in September, 1973, which stated:

> "The effect of the determination of the district court is that only those plaintiffs who are suing in their own names or those permitted to intervene in the action will be entitled to recover damages . . . ."

10. It appears that at the time during which the petition for a writ of certiorari which is the focus of this appeal was pending another petition was pending in the Supreme Court raising the same issue, and certiorari was subsequently denied on the latter petition. See *Lupia v. Stella d'Oro Biscuit Co.*, 42 U.S.L.W. 3156, cert. denied 1974, 417 U.S. 930, 94 S.Ct. 2639, 41 L.Ed.2d 232.

11. We think that our holding that no fiduciary duty was breached by the voluntary dismissal of the petition for certiorari is inferentially supported by the Supreme Court's denial of Jenny's motion to intervene in the petition for

[10] The appellants' final contention is that the stipulation of settlement is invalid because it dismissed a derivative action, Count 8 of the consolidated complaint, without notice to the shareholders of Ecological as required by Rule 23.1, F.R.Civ.P.[12] In response the appellees argue that the derivative count was rendered judicially moot in other litigation, *S.E.C. v. Harold P. Koenig, et al.*, S.D.N.Y.1973, 71 Civ. 5016, and because the shareholders of Ecological voted on February 15, 1973, to release the corporation's former president, the primary defendant in the derivative count, from and against all corporate claims then known. We do not reach the question of whether the derivative count was mooted, since we find that the appellants did not raise the dismissal of the derivative claim as a grounds for invalidating the settlement agreement in the district court. Further, an action has been commenced in the Southern District of New York which contains a derivative claim identical to the one alleged in the consolidated complaint in this action, and this new action will protect the rights, if any, of the corporation. *Thomas G. Jenny v. Haskins & Sells, et al.*, S.D.N.Y., 75 Civ. 1423.

Inasmuch as we affirm the order of the district court enforcing the settlement and dismissing the action, we find it unnecessary to determine whether the district court erred in denying class action certification.

Affirmed.

APPENDIX B

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CARL M. PEARSON, et al.,

Plaintiffs,

-against-

CASE NO. 71-Civ-1058-PF

ECOLOGICAL SCIENCE CORPORATION, et al.,

Defendants.

FILED

MAR 28 1974

JOSEPH I. BOGART
CLERK, U. S. DIST. CT.
SOUTHERN DIST. OF FLA.
MIAMI FLA.

ORDER

This cause came on for plenary hearing on March 27, 1974, at 8:30 a.m., pursuant to this Court's Order of March 15, 1974, that any party in this action desiring so to do show cause why the terms of the Stipulation of Settlement approved and adopted as the Order of this Court by Order dated January 31, 1974, should not be enforced.

The Order of March 15, 1974 was entered following a conference held by the Court to clarify the status of the cause on March 14, 1974. In addition to co-lead counsel for plaintiffs and counsel for various defendants, Dermot G. Foley, appearing on behalf of plaintiff Arnold Dutchen, attended that conference and presented argument to the Court.

At the plenary hearing only plaintiffs A. Harry Skydell and Arnold Dutchen attempted to show cause why the Stipulation of Settlement should not be enforced.

Plaintiff Skydell submitted his affidavit "in opposition to the enforcement of" the Stipulation of Settlement.

Plaintiff Dutchen submitted the affidavit of his counsel, Mr. Foley, "to urge the Court to deny enforcement of" the Stipulation of Settlement, and also submitted his own affidavit.

Mr. Foley appeared at the hearing and orally argued that the Stipulation of Settlement should not be enforced.

The Court also received and considered the affidavit of Thomas H. Seymour, a member of the law firm of Kelly, Black, Black & Kenny, P.A., co-lead counsel for plaintiffs, and the affidavit of Aubrey V. Kendall, a member of the law firm of Mershon, Sawyer, Johnston, Dunwody & Cole, counsel for plaintiff-intervenors Essex Fund, Inc. and Salem Fund, Inc., both of whom offered themselves for examination on the subject matter of their affidavits.

The Court also admitted in evidence without objection and considered the following four copies of letters:

(1) From co-lead counsel to plaintiff Skydell, dated February 9, 1974, countersigned by plaintiff Skydell, dated February 11, 1974, accepting the proposed settlement.

(2) From co-lead counsel to plaintiff Dutchen, dated February 9, 1974, countersigned by plaintiff Dutchen, dated February 11, 1974, accepting the proposed settlement.

(3) From Stuart D. Wechsler, counsel for plaintiff Skydell, dated February 26, 1974, to co-lead counsel, quoting a telegram of that date from plaintiff Skydell to co-lead counsel purporting to revoke his acceptance.

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(4) From Mr. Foley, dated February 28, 1974, to co-lead counsel, quoting a telegram of that date from plaintiff Dutchen to co-lead counsel purporting to revoke his acceptance.

The Court further received and considered Defendants' Memorandum in Support of Enforcement of Settlement, and heard argument of defendants' counsel.

The Court makes the following findings:

1. The material terms of the Stipulation of Settlement were properly, fairly, and adequately communicated by co-lead counsel for plaintiffs to all plaintiffs, including plaintiffs Dutchen and Skydell, by letter dated February 9, 1974.

2. All plaintiffs except plaintiffs Frederick C. Marcks and Leonard and Ester Schwade had knowledgeably accepted and ratified the terms of the Stipulation of Settlement by February 22, 1974. Plaintiffs A. Harry Skydell and Arnold Dutchen accepted and ratified the terms of the Stipulation of Settlement on February 11, 1974 by countersigning the February 9, 1974 letters from co-lead counsel.

3. On February 22, 1974, co-lead counsel for plaintiffs accepted the terms of the Stipulation of Settlement on behalf of plaintiffs Frederick C. Marcks and Leonard and Ester Schwade, whom they had been unable to contact despite diligent effort. Under the circumstances, co-lead counsel, who had represented plaintiffs Marcks and the Schwades throughout the litigation, were authorized to accept the terms of the Stipulation of Settlement on behalf of those plaintiffs.

4. The Stipulation of Settlement was binding on all

plaintiffs on February 22, 1974.

5. No party to this cause has shown any reason, in fact or in law, why the Stipulation of Settlement and this Court's Order of January 31, 1974, should not be enforced.

IT IS THEREFORE ORDERED that:

(1) the Stipulation of Settlement dated January 31, 1974 is binding upon all parties to these consolidated actions and enforceable by and against them; and

(2) all parties and their counsel are directed to take all steps necessary and appropriate to close the settlement as contemplated by the Stipulation of Settlement.

DONE AND ORDERED at Miami, Florida, this 28th day of March, 1974.

UNITED STATES DISTRICT JUDGE

ROLL NO.

APPENDIX C

IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF FLORIDA - MIAMI DIVISION

NO. 71-1058-Civ-PF

CARL M PEARSON, et al.,

Plaintiff,

-v-

ECOLOGICAL SCIENCE CORPORATION, et al.,

Defendants.

FILED

APR 4 1974

JOSEPH I. BOGART
CLERK, U. S. DIST. CT.
SOUTHERN DIST. OF FLA
MIAMI, FLA

ORDER OF DISMISSAL

The Court by order filed January 31, 1974, having approved and adopted the Stipulation of Settlement dated January 31, 1974, and by order filed March 28, 1974 having, among other things, directed all parties and their counsel to take all steps necessary and appropriate to close the settlement as contemplated by the Stipulation of Settlement, and it appearing to the Court that a Settlement Agreement dated April 4, 1974 and a Stipulation of Dismissal have been executed by all parties to this cause, it is therefore

ORDERED that these actions be dismissed, without costs to any party and with prejudice except as provided in the Settlement Agreement, and it is further

ORDERED that, following the withdrawal of documents as provided in the Stipulation of Settlement and Settlement Agreement, the Clerk is hereby directed to seal the Court file.

DONE AND ORDERED at Miami, Florida this 4th day of April, 1974.

UNITED STATES DISTRICT JUDGE

APPENDIX D

RELEVANT PORTIONS OF THE SECURITIES EXCHANGE ACT OF 1934

SEC. 10. It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce or of the mails, or of any facility of any national securities exchange--

(b) To use or employ, in connection with the purchase or sale of any security registered on a national securities exchange or any security not so registered, any manipulative or deceptive device or contrivance in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors.
(15 U.S.C. 78jb)

SEC. 13. (a) Every issuer of a security registered pursuant to section 12 of this title shall file with the Commission, in accordance with such rules and regulations as the Commission

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may prescribe as necessary or appropriate for the proper protection of investors and to insure fair dealing in the security--

(1) such information and documents (and such copies thereof) as the Commission shall require to keep reasonably current the information and documents required to be included in or filed with an application or registration statement filed pursuant to section 12, except that the Commission may not require the filing of any material contract wholly executed before July 1, 1962.

(2) such annual reports (and such copies thereof), certified if required by the rules and regulations of the Commission by independent public accountants, and such quarterly reports (and such copies thereof), as the Commission may prescribe.

Every issuer of a security registered on a national securities exchange shall also file a duplicate original of such information, documents, and reports with the exchange. (15 U.S.C. 78m(a))

SEC. 14. (a) It shall be unlawful for any person, by the use of the mails or by any means or instrumentality of interstate commerce or of any facility of a national securities exchange or otherwise, in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors, to solicit or to permit the use of his name to solicit any proxy or consent or authorization in respect of any security (other than an exempted security) registered pursuant to section 12 of this title.
(15 U.S.C. n(a))

SEC. 20. (a) Every person who, directly or indirectly, controls any person liable under any provision of this title or of any rule or regulation thereunder shall also be liable jointly and severally with and to the same extent as such controlled person to any person to whom such controlled person is liable unless the controlling person acted in good faith and

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did not directly or indirectly induce the act or acts constituting the violation or cause of action.

(b) It shall be unlawful for any person, directly or indirectly, to do any act or thing which it would be unlawful for such person to do under the provisions of this title or any rule or regulation thereunder through or by means of any other person.

(c) It shall be unlawful for any director or officer of, or any owner of any securities issued by, any issuer required to file any document, report, or information under this title or any rule or regulation thereunder without just cause to hinder, delay, or obstruct the making or filing of any such document, report, or information.
(15 U.S.C. t)

SEC. 27. The district courts of the United States, the District Court of the United States for the District of Columbia, and the United States courts of any Territory

or other place subject to the jurisdiction of the United States shall have exclusive jurisdiction of violations of this title or the rules and regulations thereunder, and of all suits in equity and actions at law brought to enforce any liability or duty created by this title or the rules and regulations thereunder. Any criminal proceeding may be brought in the district wherein any act or transaction constituting the violation occurred. Any suit or action to enforce any liability or duty created by this title or rules and regulations thereunder, or to enjoin any violation of such title or rules and regulations, may be brought in any such district or in the district wherein the defendant is found or is an inhabitant or transacts business, and process in such cases may be served in any other district of which the defendant is an inhabitant or wherever the defendant may be found. Judgment and decrees so rendered shall be subject to review

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as provided in sections 128 and 240 of the Judicial Code, as amended (U.S.C., title 28, secs. 225 and 347. No costs shall be assessed for or against the Commission in any proceeding under this title brought by or against it in the Supreme Court or such other courts. (15 U.S.C. 78aa)

RELEVANT SEC RULES AND REGULATIONS UNDER THE SECURITIES EXCHANGE ACT OF 1934

Rule 10b-5. Employment of Manipulative and Deceptive Devices.

It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails, or of any facility of any national securities exchange

(1) to employ any device, scheme, or artifice to defraud,

(2) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or

(3) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person,

in connection with the purchase or sale of any security. (17 CFR 240-10b-5)

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Rule 13a-1. Requirement of Annual Reports.

Every issuer having securities registered pursuant to Section 12 of the Act shall file an annual report on the appropriate form authorized or prescribed therefor for each fiscal year after the last full fiscal year for which financial statements were filed in its registration statement. Registrants on Form 8-B shall file an annual report for each fiscal year beginning on or after the date as of which the succession occurred. Annual reports shall be filed within the period specified in the appropriate report form. At the time of filing the annual report, a registrant other than a person registered under the Public Utility Holding Company Act of 1935 or the Investment Company Act of 1940 shall pay to the Commission a fee of $250, no part of which shall be refunded. (17 CFR 240.13a-1)

Rule 13a-11. Current Reports on Form 8-K.

(a) Except as provided in paragraph (b), every registrant subject to Rule 13a-1 shall file a current report on Form 8-K within ten days after the close of any month during which any of the events specified in that form occurs, unless substantially the same information as that required by Form 8-K has been previously reported by the registrant.

(b) This rule shall not apply to foreign governments, foreign private issuers required to make reports on Form 6-K pursuant to Rule 13a-16, issuers of American Depositary Receipts for securities of any foreign issuer, or investment companies required to file quarterly reports pursuant to Rule 13a-12. (17 CFR 240.13a-11)

Rule 13a-13. Quarterly Reports on Form 10-Q.

(a) Except as provided in paragraph (b), every issuer which has securities registered pursuant to Section 12 of the Act and which is required to file annual reports pursuant to Section 13 of the Act on Form 10-K, 12-K or U5S shall file a quarterly report on Form 10-Q, within the period specified in General Instruction A to that form, for each of the first three fiscal quarters of each fiscal year of the issuer, commencing with the first such fiscal quarter which ends after securities of the issuer become so registered.

(b) Quarterly reports on Form 10-Q need not be filed by the following issuers:

(1) Investment companies required to file quarterly reports pursuant to Rule 13a-12;

(2) Real estate companies required to file quarterly reports pursuant to Rule 13a-15;

(3) Foreign private issuers required to file reports pursuant to Rule 13a-16;

(4) Life insurance companies and holding companies having only life insurance subsidiaries; or

(5) Companies in the promotional or development stage to which paragraph (c) of Rule 5A-01 of Article 5A of Regulation S-X is applicable.

(c) Public utilities, common carriers and pipe line carriers which submit financial reports to the Civil Aeronautics Board, the Federal Communications Commission, the Federal Power Commission or the Interstate Commerce Commission may, at their option, in lieu of furnishing the information called for by Form 10-Q, file as exhibits to reports on this form copies of their reports submitted to such Board or Commission for the preceding fiscal quarter or for each month of such quarter, as the case may be, together with copies of their quarterly reports, if any, for such periods sent to their stockholders.

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(d) Notwithstanding the foregoing provisions of this rule, reports on Form 10-Q, or reports submitted in lieu thereof pursuant to paragraph (c), shall not be deemed to be "filed" for the purpose of Section 18 of the Act or otherwise subject to the liabilities of that section, but shall be subject to all other provisions of the Act. (17 CFR 240.13a-13)

Reg. §240.14a-9. (a) No solicitation subject to this regulation shall be made by means of any proxy statement, form of proxy, notice of meeting or other communication, written or oral, containing any statement which, at the time and in the light of the circumstances under which it is made, is false or misleading with respect to any material fact, or which omits to state any material fact necessary in order to make the statements therein not false or misleading or

necessary to correct any statement in any earlier communication with respect to the solicitation of a proxy for the same meeting or subject matter which has become false or misleading.

(b) The fact that a proxy statement, form of proxy or other soliciting material has been filed with or examined by the Commission shall not be deemed a finding by the Commission that such material is accurate or complete or not false or misleading, or that the Commission has passed upon the merits of or approved any statement contained therein or any matter to be acted upon by security holders. No representation contrary to the foregoing shall be made. (17 CFR 240.14a-9)

RELEVANT PORTIONS OF THE SECURITIES ACT OF 1933

SEC. 15. Every person who, by or through stock ownership, agency, or otherwise, or who, pursuant to or in connection with an agreement or understanding with one or more other persons by or through stock ownership, agency, or otherwise, controls any person liable under section 11 or 12, shall also be liable jointly and severally with and to the same extent as such controlled person to whom such controlled person is liable, unless the controlling person had no knowledge of or reasonable ground to believe in the existence of the facts by reason of which the liability of the controlled person is alleged to exist. (15 U.S.C. 77o)

SEC. 17. (a) It shall be unlawful for any person in the offer or sale of any securities by the use of any means or instruments of transportation or communication in interstate commerce or by the use of the mails, directly or indirectly--

(1) to employ any device, scheme, or artifice to defraud, or

(2) to obtain money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or

(3) to engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser. (15 U.S.C. 77q(a))

SEC. 22. (a) The district courts of the United States, the United States courts of any Territory, and the District Court of the United States for the District of Columbia shall have jurisdiction of offenses and violations under this title and under the rules and regulations promulgatd by the Commission in respect thereto, and, concurrent with

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State and Territorial courts, of all suits in equity and actions at law brought to enforce any liability or duty created by this title. Any such suit or action may be brought in the district wherein the defendant is found or is an inhabitant or transacts business, or in the district where the offer or sale took place, if the defendant participated therein, and process in such cases may be served in any other district of which the defendant is an inhabitant or wherever the defendant may be found. Judgments and decrees so rendered shall be subject to review as provided in sections 128 and 240 of the Judicial Code, as amended (U.S.C., title 28, secs. 225 and 347). No case arising under this title and brought in any State court of competent jurisdiction shall be removed to any court of the United States. No costs shall be assessed for or against the Commission in any proceeding under this title brought by or against it in the Supreme Court or such other courts.
(15 U.S.C. 77 V(a))